

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 57755

#### **TOWN OF FRIDAY HARBOR**

San Juan County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: October 4, 1996

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**TOWN OF FRIDAY HARBOR**  
**San Juan County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With State  
Laws And Regulations**

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Mayor  
Town of Friday Harbor  
Friday Harbor, Washington

We have audited the financial statements, as listed in the table of contents, of the Town of Friday Harbor, San Juan County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated May 29, 1996.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the town complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the town's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the town and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

May 29, 1996

**TOWN OF FRIDAY HARBOR**  
**San Juan County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Schedule Of Findings**

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1. The Town Should Comply With Statutory Bidding Requirements

We noted several exceptions with the Town of Friday Harbor's compliance with statutory bidding requirements.

During fiscal years 1994 and 1995, the town expended \$51,574 on the Sunken Park project without following statutory bidding requirements or its own purchasing policy. This was a joint project between the town and the San Juan Island Parks and Recreation District with a total anticipated cost of \$99,991. The project was funded with a 50 percent match of up to a maximum of \$49,991 from the Washington State Interagency Committee for Outdoor Recreation.

In addition, during fiscal year 1995, the town experienced three other exceptions with bidding requirements. In particular, the town:

- a. expended over \$26,000 in card lock fuel purchases with one vendor.
- b. expended over \$18,000 on delivered fuel purchases with one vendor.
- c. expended over \$23,000 for purchases of chemicals for the water treatment facilities with one vendor.

RCW 35.27.362 requires towns to comply with RCW 35.23.352(1), which states in part:

Any second class city or any town may construct any public works, as defined in RCW 39.04.010, by contract or day labor without calling for bids therefor whenever the estimated cost of the work or improvement, including cost of materials, supplies and equipment will not exceed the sum of thirty thousand dollars if more than one craft or trade is involved with the public works, or twenty thousand if a single craft or trade is involved . . . . A public works project means a complete project. The restrictions in this subsection do not permit the division of the project into units of work or classes of work to avoid the restriction on work that may be performed by day labor as a single project.

In addition, RCW 35.23.352(6), referring to purchases, goes on to state in part:

Any purchase of supplies, material, or equipment, except for public work or improvement, where the cost thereof exceeds seven thousand five hundred dollars shall be made upon call for bids.

By not complying with statutory requirements, the town cannot be assured that it obtained the best and most reasonable price for purchases of goods and services.

The town did not appear to understand statutory bidding requirements for public works project and was not aware of bidding requirements for other purchases.

We recommend the town call for bids on public works projects which exceed the statutory limits. We also recommend the town call for bids on all purchases of materials, supplies or equipment which are anticipated to exceed statutory limits.

Auditee's Response

Bidding Requirements. *With an annual budget of over 5 million dollars and the unique circumstance of being located on an island which requires every item to be shipped to us, I think it is amazing that my staff and crew can keep all of the major utilities up and running with as few interruptions in service as they do. It is the expressed Town policy to spend as little as possible of the public's monies on services and supplies while at the same time providing our customers continuous utility services. The 3 examples you cited as not being in compliance with statutory bidding requirements are the exceptions rather than the common way in which the Town conducts its business.*

*The Sunken Park Renovation Project began as a very modest upgrade of an existing public park in cooperation with the San Juan Island Park and Recreation District in 1994 with an approved budgeted expenditure of \$20,000. As the park design evolved and construction began, the public made numerous demands on the Town Council to incorporate additional recreation features, all resulting in additional expenditure of funds. The issue came before the Council more than 10 times over the course of 2 years. Everything from new road design to blasting solid rock, to constructing wooden boardwalks, to deciding on types of fencing and vegetation to ensure view corridors was considered and evaluated in a very public process. No competitive bid process could have allowed for this unique kind of local decisions making as the project evolved. Our records show that 10 separate contractors were employed during the project, most donating some of their time as a gift to the public. Eleven different suppliers provided materials and again, some donated them as an expression of civic pride. When I presided over the ribbon cutting ceremony in May and thanked all the volunteers who worked so hard on this beautiful (all-be-it expensive) project, I certainly never envisioned that the State Auditor's Office would take exception to how it got completed.*

*Fuel purchasing practices have been changed now that there are 2 equal fuel dispensing suppliers located within Friday Harbor. Until recently only one qualified supplier existed. All future fuel purchases will be by competitive bid.*

*Chemicals for the water and wastewater treatment plants are more problematic, as transportation issues relating to chlorine gas are very complex, again given our unique location (chlorine gas may not be transported on the Washington State Ferries). Jones Chemical is the only northwest distributor that we know of in our area. The next best distributor is located in Klama, WA. The Town crew always asks for telephone bids, but in the future we will formally call for bids and use bid specifications like the ones for fuel.*

*In essence, I agree with your recommendation that the Town call for bids on public works projects and purchases of materials, supplies, or equipment that exceed the statutory bidding limits. This is consistent with Town policy to spend as little as possible of the public's money on services and supplies. PROVIDED that there be little or no interruption of Town provided services or any endangerment of the public's health or welfare. I conclude that this is both the Town's stated policy and practice and that the examples you've cited are the exception not the rule.*

### Auditor's Concluding Remarks

While we can appreciate the town's circumstances, we would like to point out the instances of noncompliance with bid law statutes noted in the finding were not due to the possible interruption of services or because there was any endangerment of the public's health or welfare. By the town following their own policies regarding purchases of materials, supplies, and/or equipment, the town will have addressed the concerns noted above.

#### 2. The Town Should Enforce All Business License Provisions

During our review of business licenses, we noted numerous businesses which are up to three years delinquent in payment of their business license fees. The town has made little attempt to collect these delinquent fees and resulting penalties as required by the Friday Harbor Municipal Code (FHMC).

RCW 35.26.370 grants towns the power:

(9) To license, for purposes of regulation and revenue, all and every kind of business, authorized by law and transacted and carried on in such town . . . to fix the rate of license tax upon the same, and to provide for the collection of the same, by suit or otherwise . . .

In addition, towns are authorized:

(14) To impose fines, penalties and forfeitures for any and all violations of ordinances, and for any breach or violation of any ordinance, to fix the penalty by fine or imprisonment, or both . . . .

FHMC 5.04.100 states in part:

##### B. Enforcement.

(1) The town administrator is designated as the enforcement officer and shall have the responsibility for enforcing the provisions of this chapter in accordance with the procedures set forth in Chapter 7.80 RCW, as amended from time to time.

(2) In the event the repeated violations of the same provisions of this chapter by the same person(s) . . . the violation shall constitute a public nuisance, and the town administrator may institute a civil proceeding to abate such nuisance.

##### C. Penalty.

Any person found to have committed a violation of this chapter shall be assessed a monetary penalty in the amount set forth in Chapter 7.80 RCW, as amended from time to time.

The town made little or no attempt to enforce the provisions of this municipal code as they considered it to be a low priority.

By not enforcing the provisions of the business license requirements, the town has not treated all business owners equitably. Further, the town has not received all revenues it is due and which could then be used for public purposes.

We recommend the town enforce all aspects of business license fees as required by the Friday Harbor Municipal Code.

Auditee's Response

*Of the 461 town business licenses issued it appears that only four are currently unpaid. The balance of the 15 in question are no longer in business. In the draft findings you cite several enforcement issues, all of which I believe HAVE been followed and enforced.*

*I agree with your analysis that the town considers this issue a low priority and respectfully submit that while no enforcement action other than assessment of penalties have been initiated to date, the outstanding fines are of a diminutive nature and therefore should not constitute a policy finding.*

Auditor's Concluding Remarks

We disagree regarding the town's assertion that they have followed and enforced all enforcement responsibilities. The town is aware of at least four current businesses, and in the past, another eleven businesses which should have paid a fee to purchase a license to do business within the Town of Friday Harbor. The town has not provided us with any information on when the eleven businesses were closed, nor the date of their closure. When the businesses' accounts became past due, the town never notified the businesses to discuss the issue. As noted in their response this was due to a low priority being placed on this issue. By allowing this practice the town is providing favorable treatment to those businesses which do not pay for a business license. Furthermore, this practice encourages other businesses to follow the pattern. If the town feels the issue and revenues at stake are not significant, then the town has the option of discontinuing charging a fee for any business licenses as noted in our finding's reference to RCW 35.26.370. We reaffirm our finding.

3. The Town Should Enforce All Sewer Hookup Provisions

During our review of billings for sewer services, we noted several residences which had not been required to hook up to the town sewer system as required by the Friday Harbor Municipal Code (FHMC).

RCW 35.27.370 grants towns the right:

(5) To establish, construct and maintain drains and sewers, and shall have the power to compel all property owners on streets along which sewers are constructed to make proper connections therewith, and to use the same for proper purposes when such property is improved by the erection thereon of a building or buildings; and in case the owners of such improved property on such streets shall fail to make such connections with the time fixed by such council, they may cause such connections to be made, and to assess against the property in front of which such connections are made the costs and expenses thereof . . . .

FHMC 13.20.020 states in part:

A. The owner of any premises on which sewage is generated and which lies within 300 feet of the town's sanitary sewer shall connect to said

sewer. Such connection shall be completed prior to said premises being used in any manner which shall generate sewage.

B. . . . Failure to make such connection within the 90 days shall be cause for the town to direct that water service to the premises be discontinued until such time as compliance has been confirmed by the town building inspector.

C. If the owner of the premises so notified shall fail and neglect or refuse to connect said premises to the sanitary sewer system within the specified time, the town may, further, order the connection made by the town or by subcontracting and, in either case, the costs thereof shall be charged to the owner . . . .

The town understood the requirements but believed it was not the council's intent to require all residences to be hooked up to the sewer system.

By not requiring all residences to hook up to the town sewer system the town has violated their own code and failed to treat all property owners equitably.

We recommend the town require all residences to be hooked to the sewer system as required by the Friday Harbor Municipal Code.

Auditee's Response

*The town sanitary system has over 725 active utility accounts. New development has for years sought to connect to the municipal system so that developers can increase their development densities by not having to install septic drain fields. The only exception to this had been the recently constructed Sustainable Technology Center which may successfully argue that they are not "a premises on which sewerage is generated" because the only by-product they create is fresh water which is recycled to flush their toilets and later used for on-site irrigation needs. The other five sewer accounts that you took exception to have long been in existence with fully functioning approved septic drain fields. The only reason that they would have to connect to the municipal sanitary system is that the town, through its own actions, installed new sewer mains near the properties. They asked for and received town council approval to remain on their private sewer systems until such time that they no longer functioned properly. In a time when the Washington State Department of Ecology is demanding that the town expand its current treatment plant at an estimated cost of over 2.1 million dollars, which will further impact the current 725 sewer utility accounts, which by the way already enjoy the fifth highest monthly sewer rates of the 245 systems surveyed statewide, it seems illogical to force 5 or 6 more accounts onto the sewer system when no public health or welfare issue is at peril. The decision to allow the accounts to stay off the system was a very public and deliberate decision made by local decision makers in an open public forum.*

*However, I agree that present and former council members (1984 and 1987) should not violate their own laws and therefore directed staff to prepare legislation that would create a variance procedure regarding the requirement to connect to the municipal sewer system. Ordinance No. 1005 was passed on June 6, 1996, and variance proceedings will be held for each of the aforementioned accounts. The present council will be given the formal opportunity to evaluate and reaffirm those actions taken by earlier councils.*



### Auditor's Concluding Remarks

We appreciate the town's quick response with dealing with this issue. We will review the council actions under the new ordinance in our next audit.

We would like to thank the town for their cooperation during our audit and we look forward to working with the town to resolve the issues noted in our report.

**TOWN OF FRIDAY HARBOR**  
**San Juan County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Financial Statements And Additional Information**

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Mayor  
Town of Friday Harbor  
Friday Harbor, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of the Town of Friday Harbor, San Juan County, Washington, for the fiscal year ended December 31, 1995. These financial statements are the responsibility of the town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1c to the financial statements, the town prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the Town of Friday Harbor for the fiscal year ended December 31, 1995, on the cash basis of accounting described in Note 1c.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt and Schedule of State Financial Assistance

are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag  
State Auditor

May 29, 1996